

## NOTE 12 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT

### A. General Information

#### General Obligation Bonds and Notes

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a special revenue fund. No such borrowing occurred in fiscal year 2001-2002. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. No such borrowing occurred in fiscal year 2001-2002.

#### Revenue Dedicated Bonds and Notes

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

The Michigan Underground Storage Tank Financial Assurance Finance Authority issued revenue bonds to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). The bonds and notes are a limited obligation of the Authority payable solely from dedicated revenues and do not represent a general obligation of the finance authority or the State.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. The \$255.5 million of commercial paper notes outstanding at year-end are not recorded as liabilities in the Authority's statements, but are included in the "Changes in Bonds and Notes Payable" schedule presented later in this Note.

In addition to the \$400.0 million of grant anticipation notes issued in fiscal year 2000-2001, the Department of Transportation issued \$200.0 million of grant anticipation notes in fiscal year 2001-2002. The notes have variable rates that may bear interest at a daily interest rate, a weekly rate, note interest term rate, long-term interest rate, or an ARS interest rate.

The notes are issued in accordance with the authorization provided in P.A. 51 of 1951, as amended. The proceeds of the sale of the notes, together with investment earnings on the proceeds and other available monies, will be used to pay a portion of the costs to complete the Build Michigan II highway program, to pay capitalized interest on the notes, and to pay note issuance costs.

The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program. Payment of the principal and interest on the notes from the State share shall be subject to an appropriation each year by the Legislature in an amount sufficient to make the payments. As of September 30, 2002, there were no principal payments made on the notes. The amount outstanding at September 30, 2002, \$600.0 million, is not disclosed in the table below. The notes issued in fiscal year 2000-2001 mature in 2008 and the notes issued in fiscal year 2001-2002 mature in 2009.

Note 13 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

#### Bonds Issued and Outstanding

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:			FISCAL YEAR MATURITIES		AVERAGE INTEREST RATE
	AMOUNTS ISSUED	OUTSTANDING 9/30/2002	FIRST YEAR	LAST YEAR	RATE PERCENTAGE
<b>GENERAL OBLIGATION BONDED DEBT</b>					
General Obligation Refunding Debt:					
Series 2001 (Refunding)	\$ 183.3	\$ 183.2	2002	2016	4.76
Series 2002 (Refunding)	300.7	300.7	2004	2017	4.40
Recreation and Environmental Protection:					
Series 1989 (1)	75.0	27.8	1991	2012	6.92
Series 1992 (1)	246.3	90.5	1994	2013	6.15
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	.9	2012	2012	6.50
Series 1992 A (1)(2)	13.9	8.7	1994	2012	6.17
Series 1993 (1)(2)	16.7	11.9	1995	2013	5.00
Series 1995 (1)	234.3	94.6	1997	2020	5.28
Series 1998 (1)	90.0	19.9	1999	2009	4.80
Series 1999 A (3)	81.8	22.4	2004	2010	5.57
Series 1999 B (3)	15.1	5.4	2001	2003	6.75
Series 2000 (1)	60.0	18.9	2002	2011	5.22
Series 2001 (3)	56.8	56.8	2004	2020	4.82
School Loan Bonds:					
Series 1995	180.0	39.6	1997	2007	5.47
Series 1998	160.0	78.9	2001	2012	4.86
Series 2001 A	81.3	81.3	2005	2021	3.50
Series 2001 B	1.2	1.2	2021	2021	3.50

**Michigan**  
**Notes to the Financial Statements**

Series 2001 C	45.9	45.9	2019	2021	3.50
Series 2002 A	50.6	31.0	2005	2019	3.50
<b>TOTAL GENERAL OBLIGATION BONDED DEBT</b>	<b>1,893.3</b>	<b>1,119.6</b>			
<b>REVENUE DEDICATED BONDED DEBT</b>					
<u>MUSTFA Related:</u>					
Tax Dedicated Bonds:					
1996 - Revenue Bonds - Series I	216.6	137.5	1997	2010	5.67
<u>State Park Related:</u>					
2002 - Gross revenue Bonds	15.5	15.5	2004	2023	3.58
<b>TOTAL REVENUE DEDICATED BONDED DEBT - MUSTFA AND STATE PARK RELATED</b>	<b>232.1</b>	<b>153.0</b>			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1996 (Series A Refunding)	22.7	22.3	1998	2014	5.42
Series 1998 (Series A Refunding)	38.6	38.6	2005	2011	4.66
Series 2001 (Series A Refunding)	27.8	27.8	2008	2022	5.01
Series 2002 (Series A Refunding)	89.6	89.6	2003	2011	5.06
Series 2002 (Series B)	82.3	82.3	2004	2022	5.13
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	26.7	1994	2009	6.97
Series 1992 (Series A and Series B Refunding)	353.2	76.0	1999	2013	6.16
Series 1994 (Series A and Series B Refunding)	241.0	18.6	1996	2006	5.53
Series 1996 (Series A)	54.5	6.6	1998	2008	5.71
Series 1998 (Series A)	377.9	377.9	2006	2027	5.09
Series 2001 (Series A)	308.2	308.2	2003	2031	5.27
Series 2002 (Refunding)	97.9	97.9	2004	2022	4.71
<b>TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED</b>	<b>1,829.4</b>	<b>1,172.6</b>			
<u>State Building Authority:</u>					
1993 Revenue Bonds Series I (Refunding)	491.5	254.6	1994	2016	4.58
1994 Series I Bonds	39.8	23.4	1995	2012	5.07
1994 Series II Bonds	29.1	19.0	1996	2011	4.62
1996 Series I Bonds	109.9	68.6	1997	2010	5.04
1997 Series I Bonds	144.8	101.0	1997	2010	5.18
1997 Series A Bonds	34.3	19.0	1997	2006	4.76
			<b>FISCAL YEAR MATURITIES</b>		<b>AVERAGE INTEREST RATE</b>
			<b>FIRST YEAR</b>	<b>LAST YEAR</b>	<b>PERCENTAGE</b>
<u>State Building Authority (continued):</u>					
1997 Series II Bonds	371.9	305.0	1997	2014	5.53
1998 Series I Bonds	109.5	92.8	1998	2014	4.84
1998 Series I Bonds (Refunding)	330.4	305.2	1999	2021	4.75
1999 Series I Bonds	85.7	75.7	1999	2016	4.54
2000 Revenue Bonds	45.8	42.6	2000	2012	5.63
2000 Series I Bonds	147.9	144.2	2000	2022	5.24
2001 Series I Bonds	121.7	119.2	2002	2019	5.28
2001 Revenue Bonds	58.2	56.8	2002	2014	5.13
2001 Series I Bonds (Refunding)	419.7	419.5	2003	2026	5.31
2001 Series II Bonds	170.1	170.1	2003	2020	5.28
2002 Series I Multi-Modal Bonds	215.2	215.2	2003	2038	1.65
2002 Series II Multi-Modal Bonds	150.3	150.3	2004	2037	1.40
<b>TOTAL STATE BUILDING AUTHORITY BONDED DEBT</b>	<b>3,075.7</b>	<b>2,582.1</b>			
<b>TOTAL REVENUE DEDICATED BONDED DEBT</b>	<b>5,137.2</b>	<b>3,907.7</b>			
<b>TOTAL GENERAL OBLIGATION AND REVENUE DEDICATED BONDED DEBT</b>	<b>\$ 7,030.6</b>	<b>\$ 5,027.2</b>			

**Michigan**  
**Notes to the Financial Statements**

- (1) Public Act 327 of 1988 and P.A. 451 of 1994 authorized the issuance of bonds totaling \$800.0 million. As of September 30, 2002, \$736.6 million of such bonds had been issued, leaving remaining authorization of \$123.4 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed.
- (2) The \$13.9 million Series 1992A and the \$16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds, were used to provide a contribution of capital to the Michigan Municipal Bond Authority (a discretely presented component unit). An outside trustee for the Authority is holding

the bonds as an investment of the Authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the Authority.

- (3) Public Act 284 of 1998 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2002, \$153.6 million of such bonds had been issued, leaving remaining authorization of \$521.4 million.

**Capital Appreciation Bonds**

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and Section B at their

accreted year-end book value. The table that follows summarizes capital appreciation bonds (in millions):

	ACCREDITED BOOK VALUE	ULTIMATE MATURITY VALUE	FISCAL YEAR MATURITIES	
			FIRST YEAR	LAST YEAR
<b>State Building Authority:</b>				
1994 Series II	\$ 17.8	\$ 21.4	2000	2012
1997 Series II	28.6	40.5	2001	2012
<b>General Obligation Bonds:</b>				
Series 1989	31.3	41.0	1999	2012
Series 1992	19.4	27.2	1994	2012
College Savings Bonds - Series 1992 Mini-bonds	.9	1.8	2012	2012
Series 1995	20.4	26.3	2001	2010
<b>Revenue Dedicated – Transportation Related:</b>				
State Trunkline - Series 1989 A	26.7	35.7	2004	2009
State Trunkline - Series 1992 A and B	65.0	97.7	2006	2013

**Advance Refundings and Defeasances**

The State has defeased certain bonds by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets The following table summarizes the defeased bonds outstanding at September 30 (in millions):

and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

	AMOUNTS OUTSTANDING
<b>Recreation and Environmental Protection:</b>	
Series 1989	\$ 3.9
Series 1992	88.6
Series 1995	116.1
Series 1998	57.2
Series 1999 A	59.3
Total	<u>\$ 325.2</u>
<b>School Loan Bonds:</b>	
Series 1995	\$ 103.3
Series 1998	69.1
Total	<u>\$ 172.4</u>
<b>State Trunkline Fund Bonds:</b>	
Series 1992 A (partial)	\$ 194.2
Series 1992 B (partial)	83.4
Series 1994 A (partial)	120.3
Series 1996 A (partial)	43.9
Total	<u>\$ 441.9</u>
<b>State Building Authority:</b>	
1982 Series III	\$ 19.3
1988 Series I	1.8
1989 Series I	35.4
1992 Series I	121.7
1992 Series II A	28.1
Total	<u>\$ 206.4</u>

**Michigan**  
**Notes to the Financial Statements**

**General Obligation**

In July of 2002, the State issued \$300.7 million of General Obligation Refunding Bonds Series 2002. The proceeds were used to refund various portions of previously issued bonds that carried higher interest rates.

The State advance refunded these bonds to reduce its total debt service payments over the next 15 years by \$9.6 million and to achieve an economic gain of \$8.8 million.

**Revenue Dedicated**

In May of 2002, the State issued \$89.6 million of revenue dedicated Comprehensive Transportation Refunding Bonds Series 2002A. The proceeds were used to refund the outstanding amount of the Comprehensive Transportation

Refunding Bonds Series 1992B which carried a higher interest rate.

The State advance refunded these bonds to reduce its total debt service payments over the next 10 years by \$8.0 million and to achieve an economic gain of \$6.7 million.

In August of 2002, the State issued \$97.9 million revenue dedicated State Trunkline Fund Refunding Bonds Series 2002. The proceeds were used to refund various portions of previously issued bonds that carried higher interest rates.

The State advance refunded these bonds to reduce its total debt service payments over the next 20 years by \$10.3 million and to achieve an economic gain of \$7.9 million.

**Debt Service Requirements**

The following table summarizes debt service requirements for outstanding bonds (in millions):

FISCAL YEARS ENDING	GENERAL OBLIGATION		MUSTFA, STATE PARK, AND TRANSPORTATION RELATED		STATE BUILDING AUTHORITY		TOTAL PRINCIPAL AND INTEREST
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	INTEREST
2003	\$ 26.8	\$ 51.4	\$ 53.8	\$ 59.8	\$ 142.3	\$ 115.4	\$ 449.6
2004	33.6	50.6	59.7	60.9	139.1	108.7	452.6
2005	57.5	48.8	63.7	58.2	142.7	101.4	472.3
2006	63.5	46.1	66.9	55.4	124.9	94.6	451.4
2007	66.8	43.3	69.6	52.7	129.7	88.3	450.3
2008-2012	382.8	169.5	311.2	219.9	666.4	339.1	2,088.9
2013-2017	372.3	66.9	244.9	161.6	511.7	184.4	1,541.9
2018-2022	128.7	10.5	304.3	90.4	298.0	82.5	914.6
2023-2027	-	-	119.7	33.4	82.3	34.8	270.2
2028-2032	-	-	73.6	8.0	-	28.3	109.8
2033-2037	-	-	-	-	360.5	26.2	386.6
Total	\$ 1,132.2	\$ 487.2	\$ 1,367.3	\$ 800.3	\$ 2,597.6	\$ 1,203.6	\$ 7,588.2

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds. State Building Authority debt service fund unreserved

fund balances totaled \$274.8 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

**B. Changes in Bonds and Notes Payable**

Changes in bonds and notes payable for the year ended September 30, 2002, are summarized as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Bonds Payable:</b>						
General obligation debt	\$ 1,031.8	\$ 459.9	\$ 372.2	\$ 1,119.6	\$ 26.8	\$ 1,092.8
Revenue bonds	1,274.0	291.0	239.4	1,325.5	53.8	1,271.8
State Building Authority	2,159.3	535.6	112.7	2,582.1	142.3	2,439.8
<b>Notes Payable:</b>						
Transportation related	400.0	200.0	-	600.0	-	600.0
<b>Deferred Loss on Refundings:</b>						
General obligation debt	(11.5)	(22.1)	1.2	(32.4)	-	(32.4)
Revenue dedicated debt	(.7)	(5.3)	.1	(5.9)	-	(5.9)
State Building Authority	(8.2)	-	.3	(7.8)	-	(7.8)
<b>Unamortized Premiums:</b>						
General obligation debt	14.0	33.0	1.7	45.4	-	45.4
Revenue dedicated debt	4.5	19.4	.5	23.4	-	23.4
State Building Authority	25.5	11.8	2.0	35.3	-	35.3
<b>Other Debt:</b>						
State Building Authority						
Commercial paper	307.4	2,343.3	2,395.2	255.5	255.5	-
Total bonds and notes payable	\$ 5,196.1	\$ 3,866.6	\$ 3,122.0	\$ 5,940.7	\$ 478.4	\$ 5,462.3